

# Is LG Display a **deep** **value play** or cheap for a **reason?**



**Valuation Master Class**





This information is for  
learning purposes only.

\*\*\*This is not  
investment advice or a  
recommendation.\*\*\*



Ask  
Ajarn  
Andrew



# Is LG Display a deep value play or cheap for a reason?



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**Sector: Info Tech**



*Among the world's largest manufacturers of displays for TV, mobile phones, and computers with a market share of 21%*

**My value estimate:**

**KRW21,067**

(Upside 7%)

**HOLD**



## 3 things to know about this company

- ★ Intensified price competition leads to loss of market share
- ★ End markets for displays face maturity, expect low growth
- ★ Focus on premium products to turnaround margin

## Key statistics

Analyst consensus (32)

**KRW26,000**

(Upside 32%)

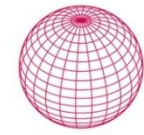
**BUY**

PE ratio

**5x**

Dividend yield

**0%**



Sales

Story

FVMR

Value

WCB

Risks

## IT products 42%



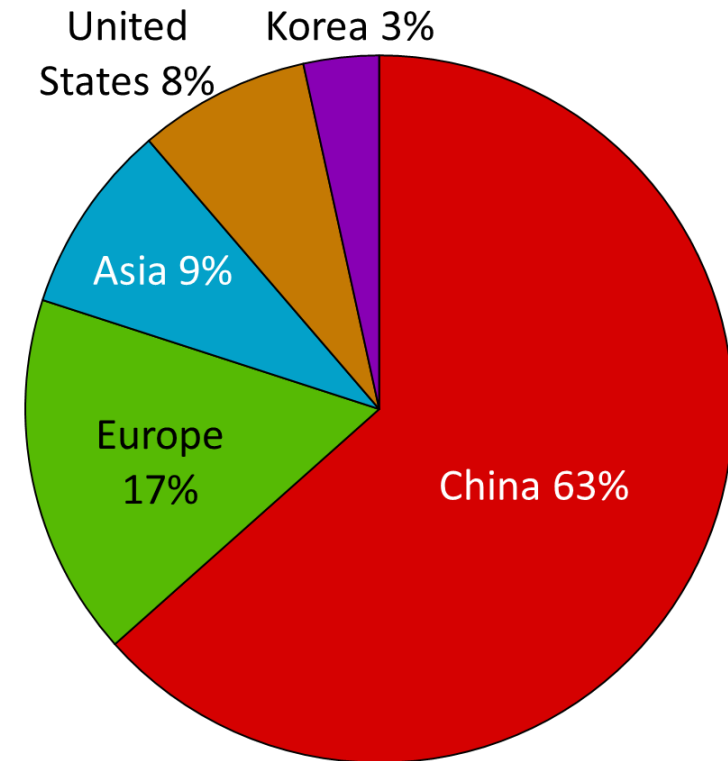
## Mobile 30%



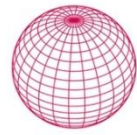
## Television 28%



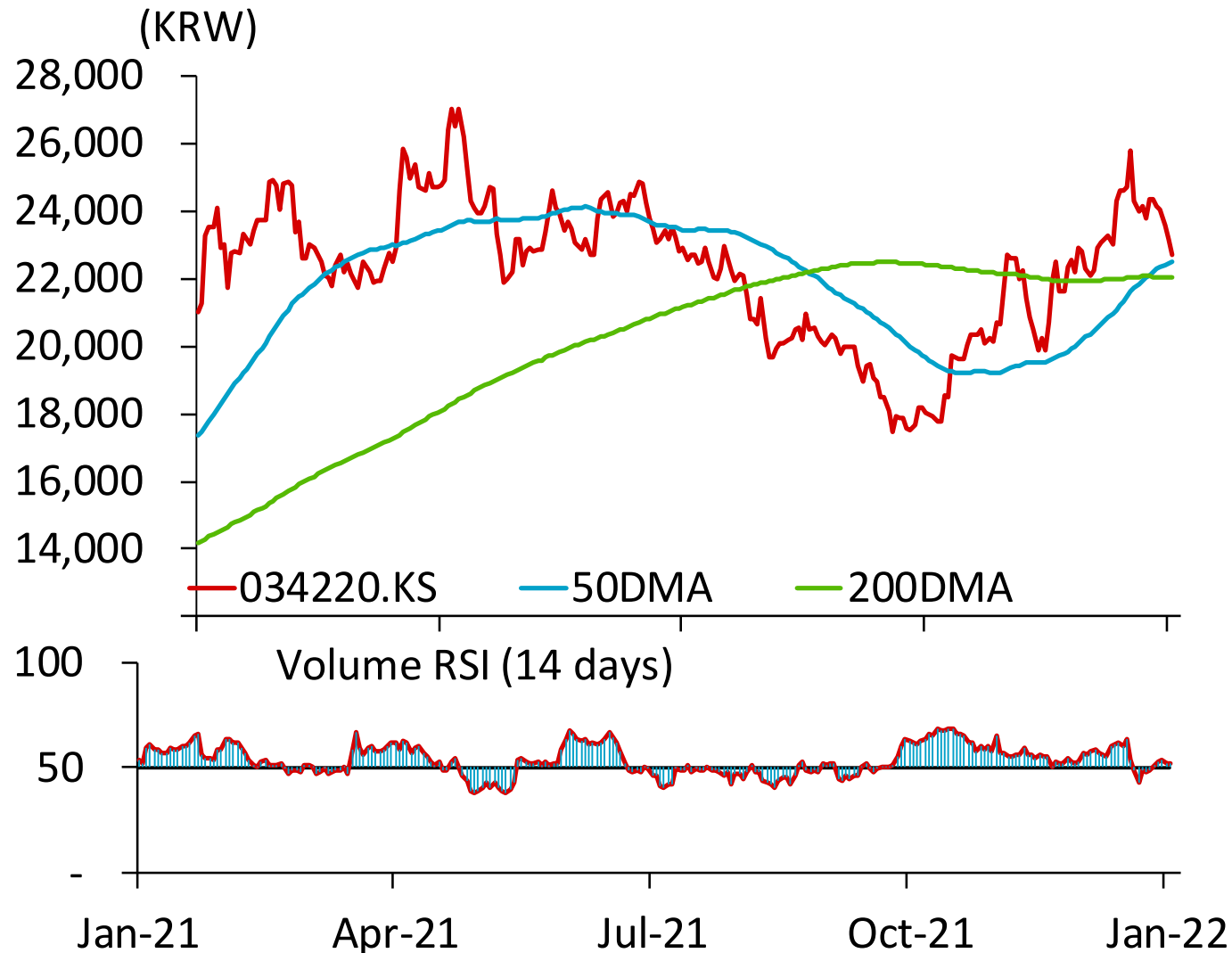
## Breakdown by region



# Price recently turned bullish, but low volume support

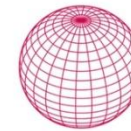


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- ★ In early 2022, the 50DMA has crossed the 200DMA, which is a positive signal
  - However, the share price seems to cross the 50DMA soon, which could turnaround the trend
- ★ Volume RSI has been strong in 4Q21
  - Recently, it moved to the 50%-line, providing no clear signal going forward

# 1 Intensified price competition leads to loss of market share



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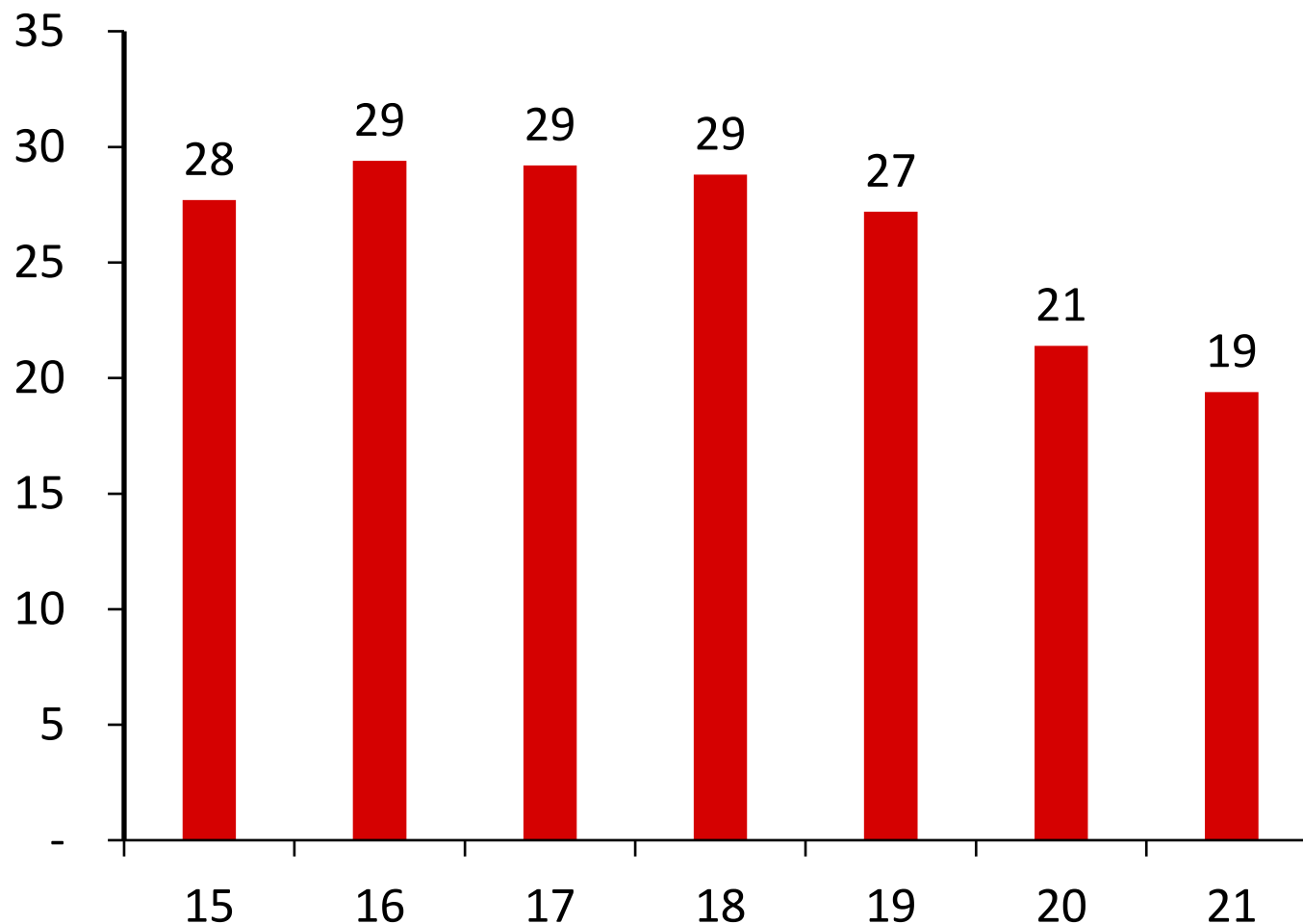
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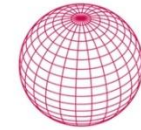
Risks

LG Display's global market share for large-sized displays (%)



- ★ The display industry is dominated by Asian manufacturers from China, Taiwan, Korea, and Japan
- ★ Chinese companies aggressively expanded their capacity to produce displays at lower prices
  - **The Chinese gov't continues to subsidize its domestic companies which could even lead to a potential oversupply soon**

# Supply shortages drive up selling price, but only temporary



Sales

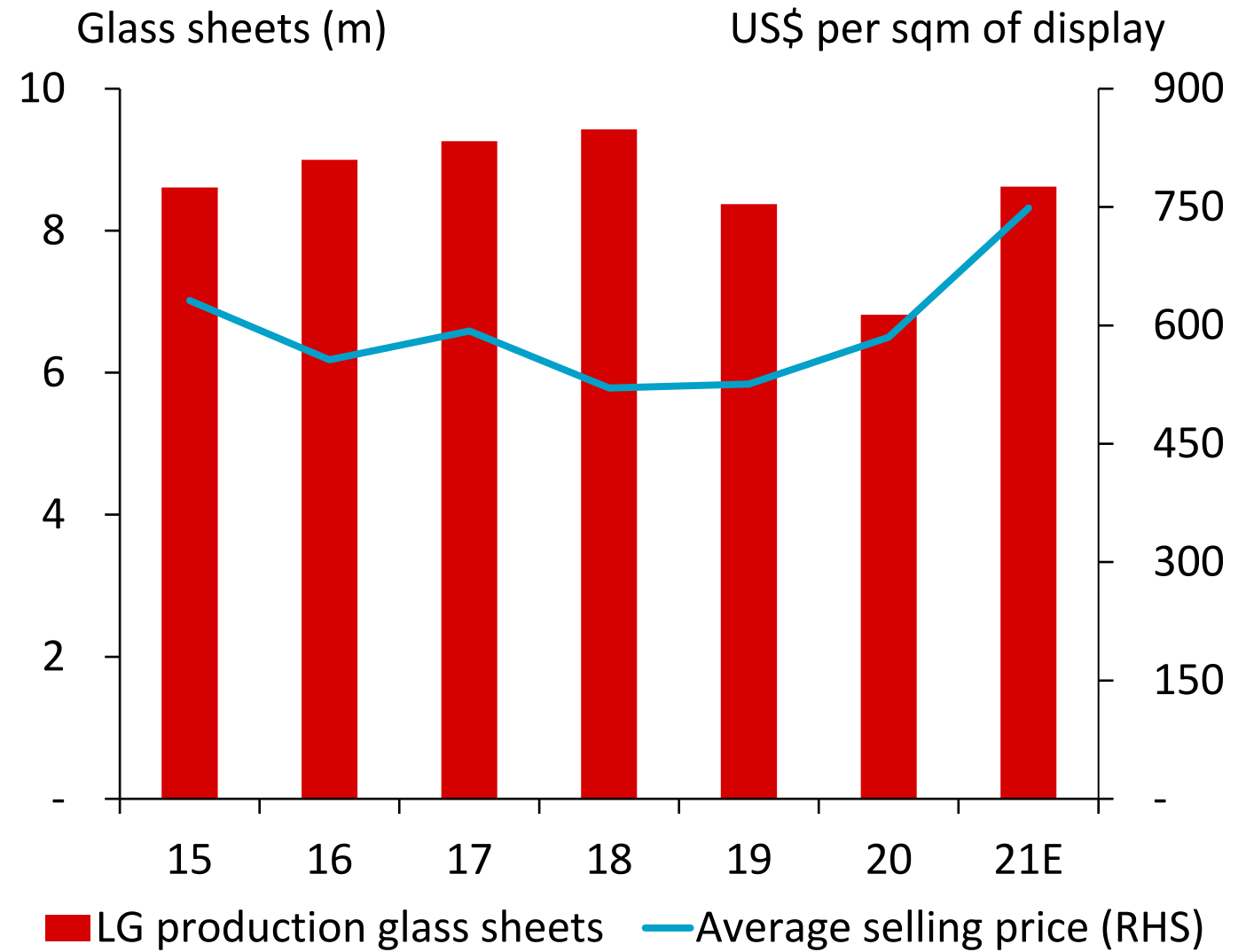
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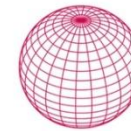
Risks



- ★ In 2019, the average selling price for LG's displays per sqm dropped by 17% compared to 2015
  - **Mainly to keep up with cheaper products from its competitors**
- ★ During the pandemic, the price for displays spiked in response to excessive demand and supply shortages
  - **I believe this trend to be short-lived and expect falling prices again**



## 2 End markets for displays face maturity, expect low growth



Sales

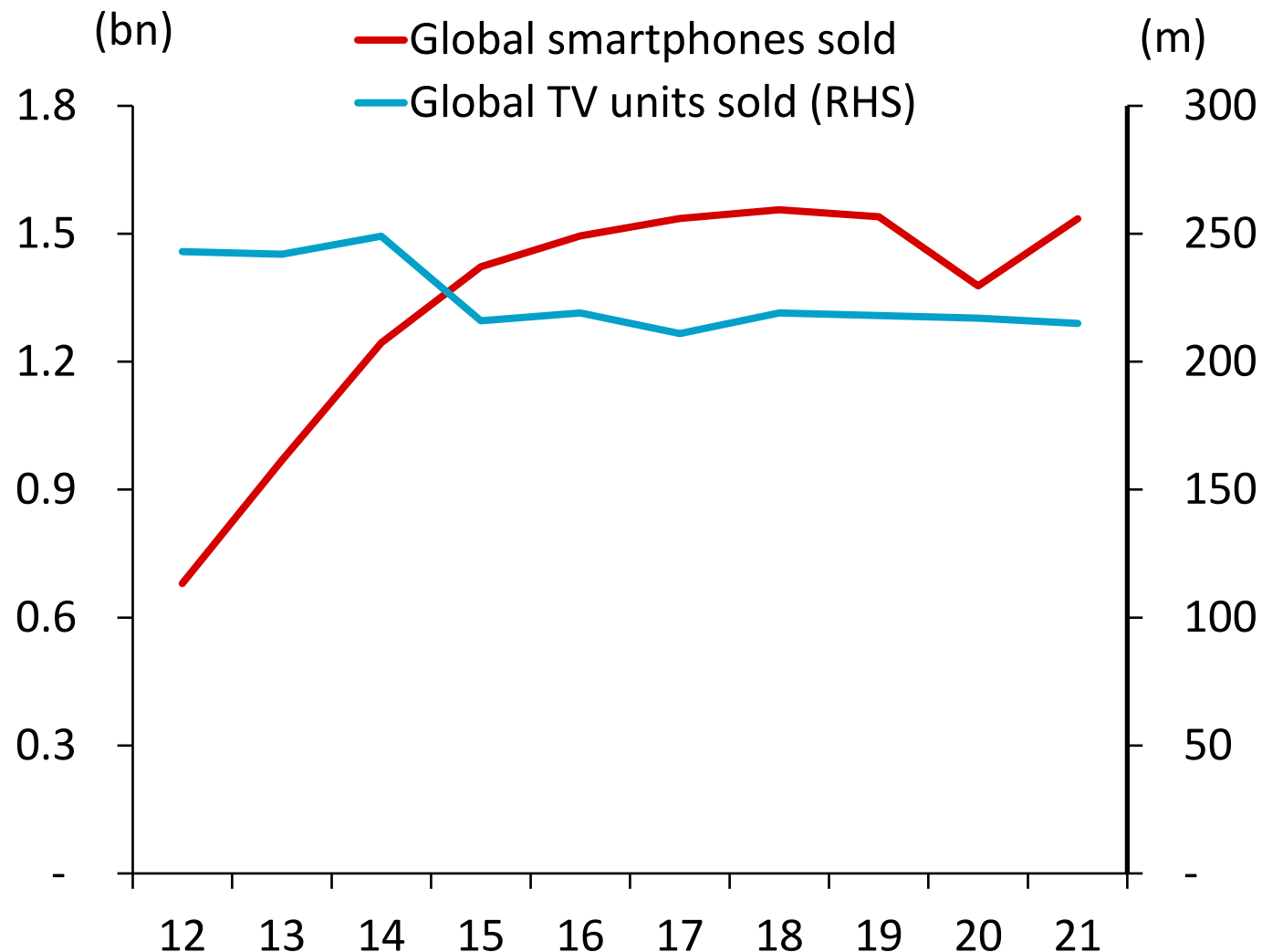
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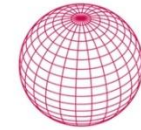
Risks



- ★ LG Display's revenue is mainly dependent on the growth of its end markets such as computer, phones, and TV
- ★ A mature market for smartphones translates into low demand for displays
  - The same goes for TV which saw declining trend over the past years



# End markets for displays face maturity, expect low growth



Sales

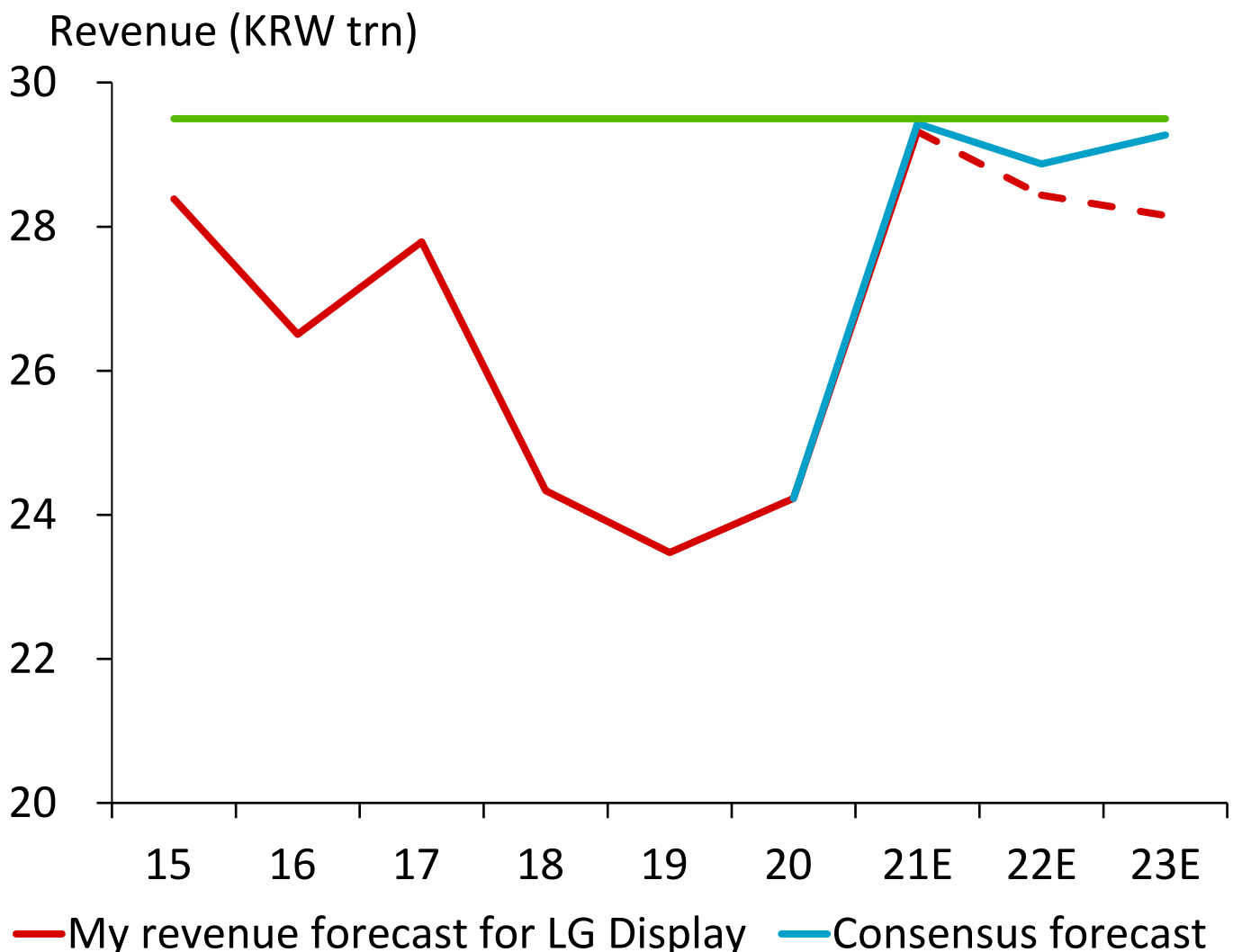
Story

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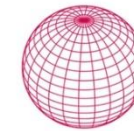
Value

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Risks



- ★ In the past, LG Display has been in a downward spiral
  - **Between 2015 and 2020, revenue declined by more than 15%**
- ★ Despite a jump in 21E revenue, the company faces a challenge to hit the KRW30trn revenue mark over time
  - **I expect declining revenue in the following 2 years**



Sales

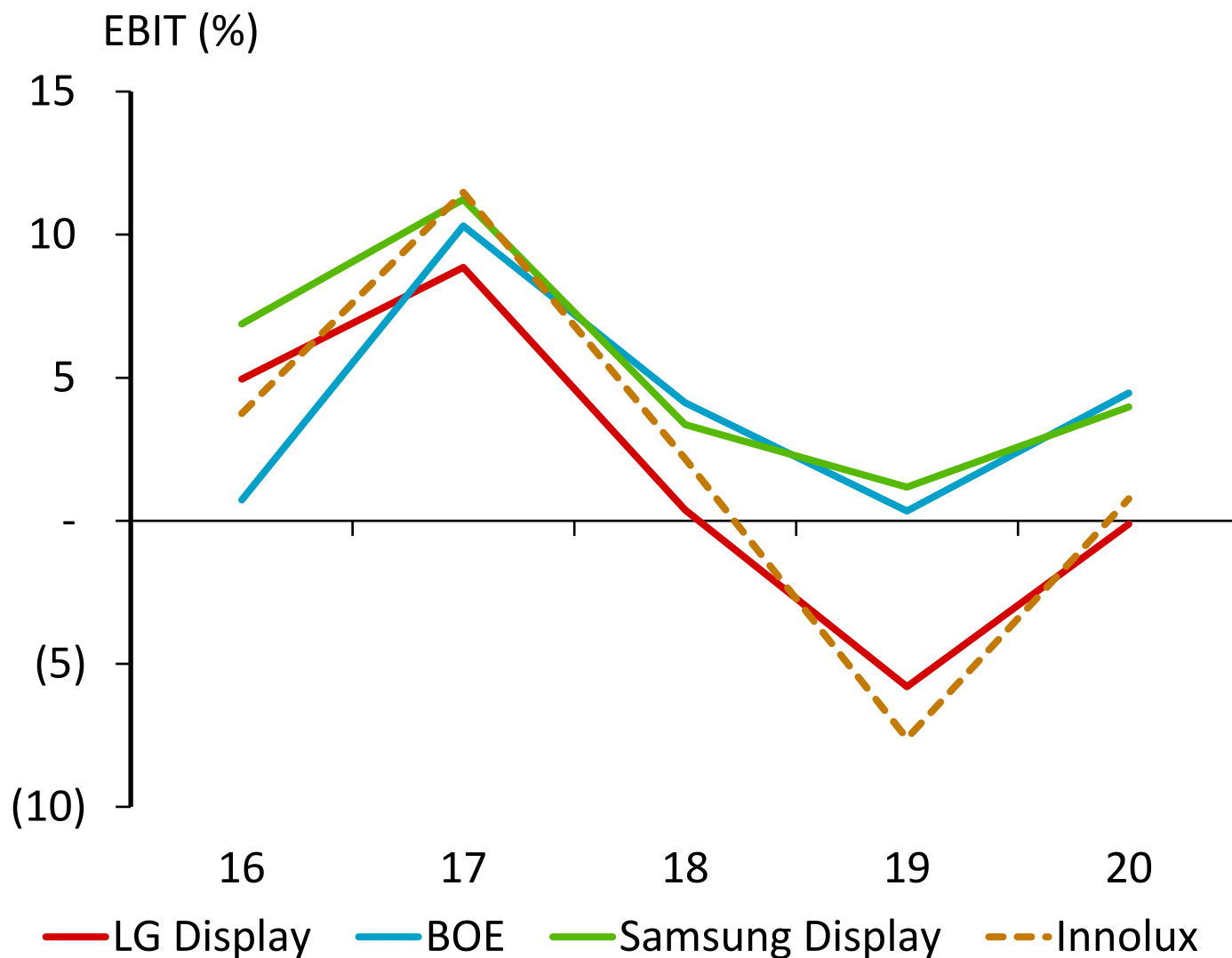
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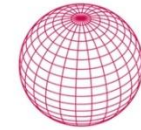


★ Currently there are two major technologies prevailing in the display market

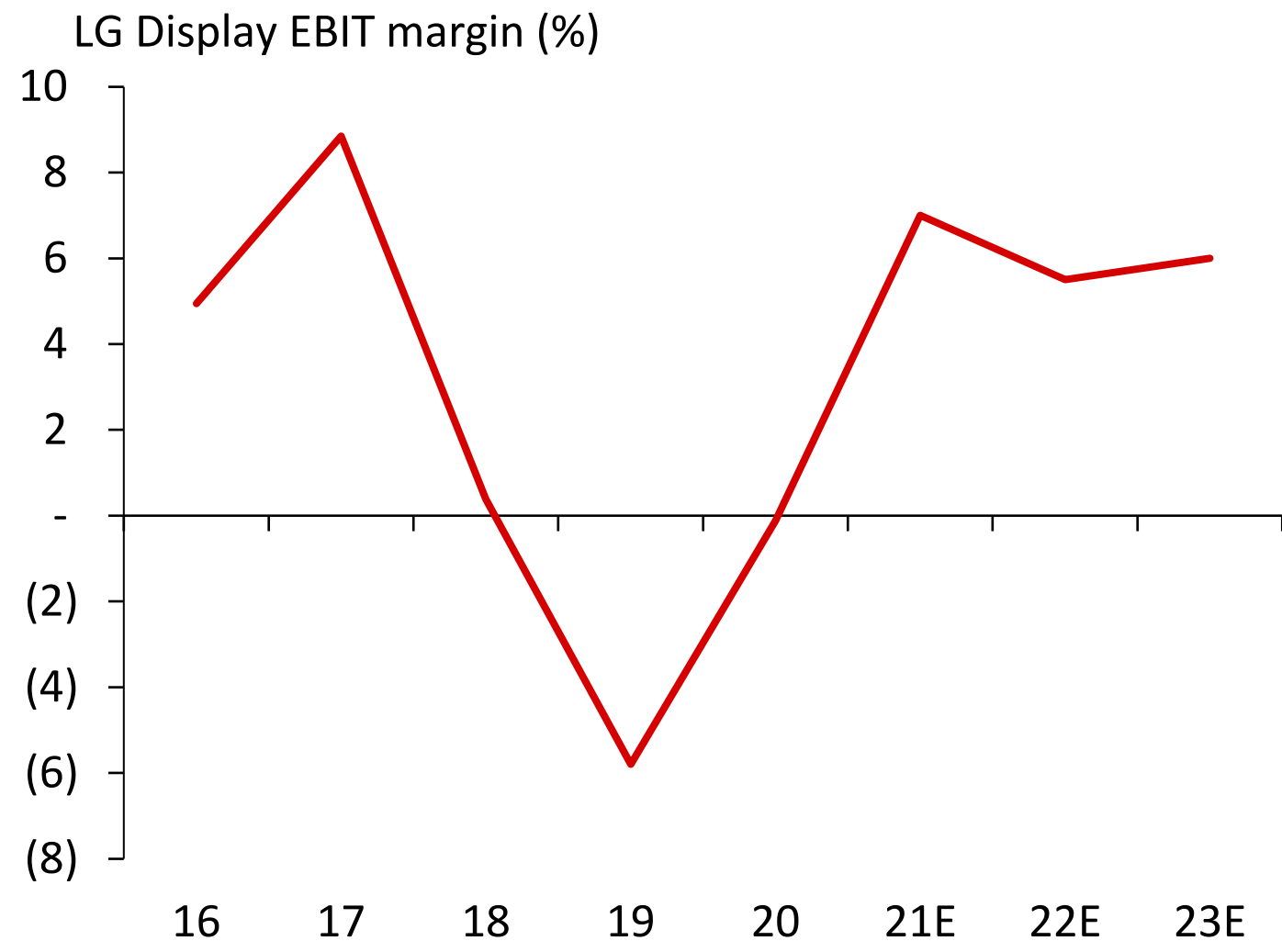
- The first one, LCD, existed since the early 2000s
- Chinese competitors started to compete on price for LCD TVs, leading to a severe drop in selling price
- The other TV tech, OLED, is supposed to deliver a better picture quality, but is more expensive



# Focus on premium products to turnaround margin



- Sales
- Story
- FVMR
- Value
- WCB
- Risks



- ★ LG Display realigned its strategy to transition to high-margin OLED rather than responding to the price competition on LCD TVs
  - Currently, only Samsung has emerged as a serious competitor in OLEDs
  - This means that OLED TVs can maintain a price premium for some time
- ★ The strategy should help to stabilize LG's margin and turnaround losses



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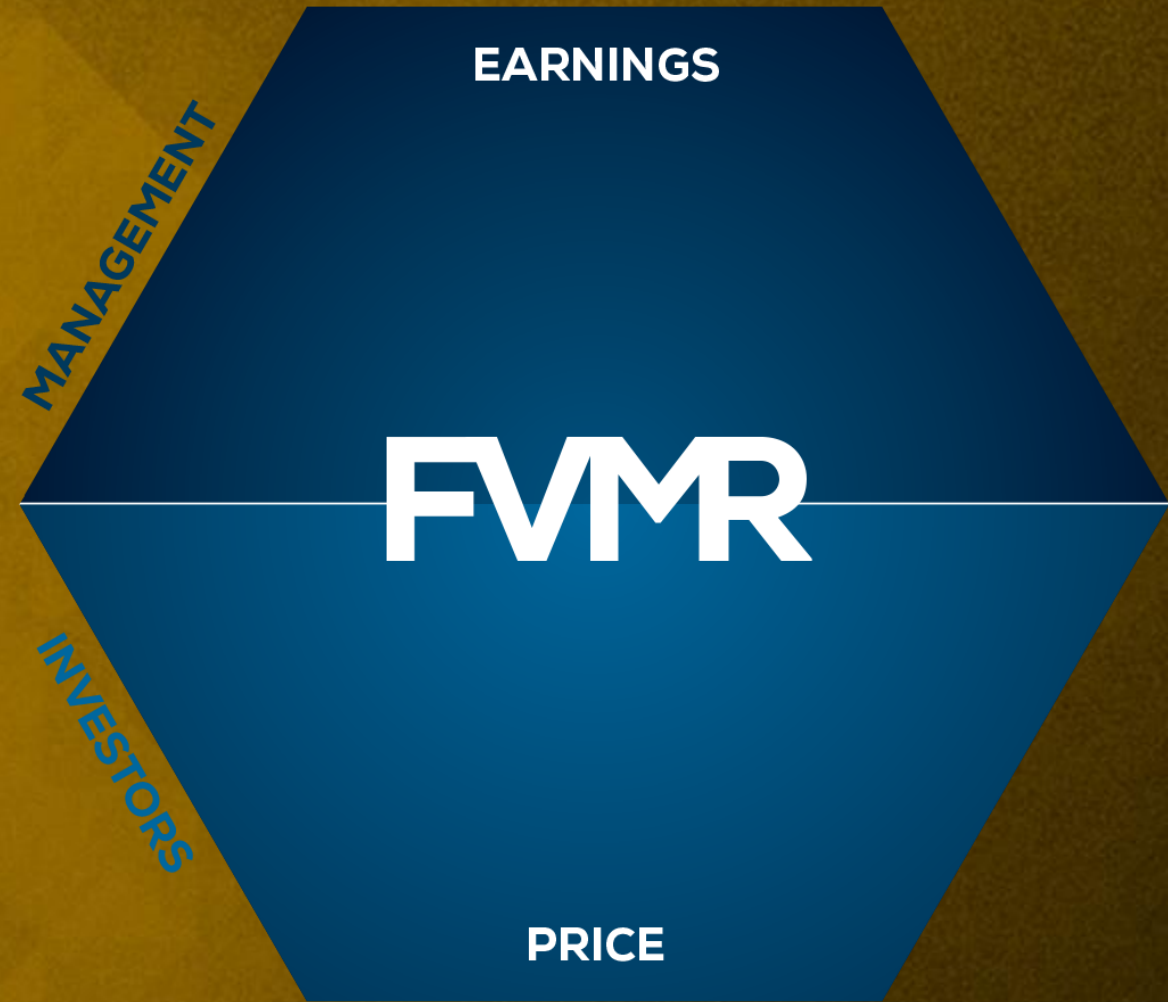
*\*It's usually up within 24h.*





# FVMR Scorecard

- ★ Measures a stock's attractiveness relative to all other companies
- ★ Attractiveness is based on four elements
  - Fundamentals, Valuation, Momentum, and Risk
- ★ Scale from 1 (Best) to 10 (Worst)



# Strong momentum and favorable valuation



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## Fundamentals



(%)	Dec-17	Dec-18	Dec-19	Dec-20	PTM**
Operating profit margin	9.1	0.4	(5.7)	(0.8)	8.7
Recurring net margin	7.0	(0.3)	(4.1)	0.0	6.2
Asset turnover	102.8	78.1	68.3	68.6	78.1
Return on assets	7.2	(0.2)	(2.8)	0.0	4.8
Recurring return on equity	14.3	(0.4)	(7.5)	0.0	14.7

## Valuation



(x)	Dec-17	Dec-18	Dec-19	Dec-20	PTM**
Price-to-sales	0.3	0.3	0.2	0.3	0.3
Price-to-earnings	4.8	nm	nm	21,882.5	4.7
Price-to-book	0.7	0.5	0.4	0.7	0.6
PE-to-EPS growth (PEG)	0.0	nm	nm	nm	nm
EV/EBIT	4.8	130.7	nm	nm	7.0

## Momentum



(%)	Dec-17	Dec-18	Dec-19	Dec-20	PTM**
Revenue growth	4.9	(12.4)	(3.5)	3.2	23.0
Recurring EPS growth	124.5	(103.3)	(1,396.2)	100.0	325.5
Operating profit margin chg. (bps)	461	(869)	(612)	486	1,406
	6mth	3mth	1mth	3wk	1wk
Price change	(11.7)	(1.2)	1.7	2.7	(0.7)

## Risk



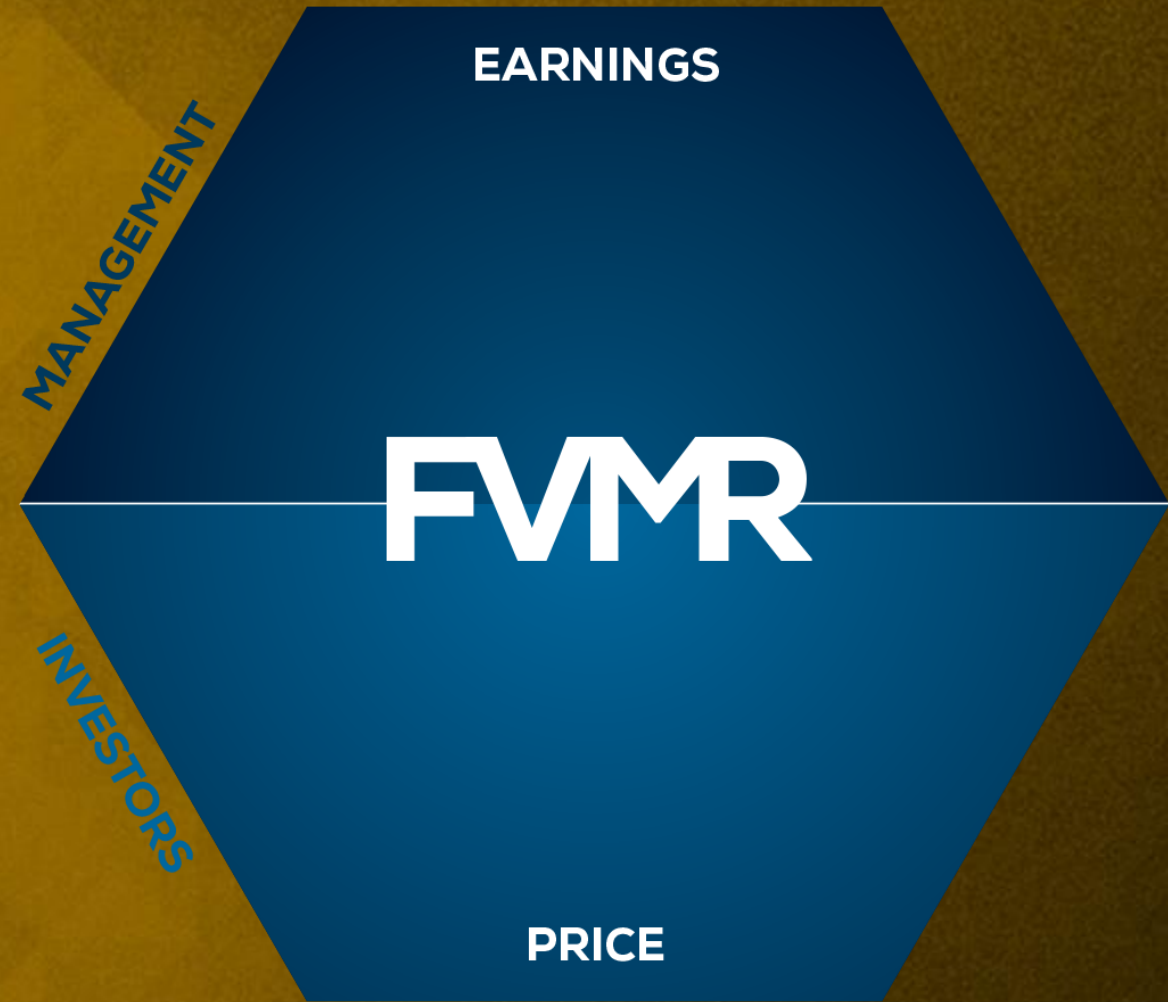
(x)	Dec-17	Dec-18	Dec-19	Dec-20	PTM**
Current ratio	1.2	0.9	0.9	1.0	1.0
Net debt-to-equity (%)	20.3	50.8	100.3	98.8	77.1
Times-interest-earned	18.4	0.5	(2.9)	(0.4)	4.8
	5yr	3yr	1yr	6mth	3mth
Beta	1.2	1.3	1.3	1.4	0.9

Note: Benchmarking against 770 non-financial companies in South Korea.



Recently, I created a short  
online course explaining my  
FVMR investing approach

I usually sell it  
for \$97 but for  
a limited time  
I am offering  
it for FREE



# Consensus sees a cheap opportunity to buy



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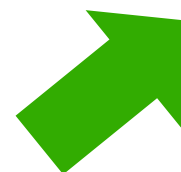
Risks

## Analyst consensus valuation

Recommendation	Oct-21	Nov-21	Dec-21	Current
Strong buy	7	7	7	8
Buy	13	13	13	15
Hold	6	6	4	4
Sell	5	5	6	5
Strong sell	-	-	-	-
Average score	2.3	2.3	2.3	2.2

Price target	Oct-21	Nov-21	Dec-21	Current
Median	25,000	25,000	25,000	26,000
Mean	25,100	23,435	23,983	25,467

32  
analysts



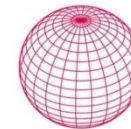
Upside: 32%

## Analyst consensus 3-year forecast

(%)	18	19	20	21E	22E	23E
Revenue growth	2.5	(3.5)	3.2	21.5	(1.9)	1.4
Gross margin	12.7	8.0	10.9	18.1	16.2	17.3
EBIT margin	0.4	(5.8)	(0.1)	8.1	5.7	6.5
Net margin	(0.9)	(12.1)	(0.4)	4.9	3.4	4.1

- ★ Most analysts have issued a BUY recommendations, while 5 analysts recommend a SELL
- ★ Consensus expects a strong revenue boost in 21E, but flat revenue afterward
  - They expect the company to turn around its losses and achieve a higher level of margin

# Profit & loss statement



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(YE Dec, Won bn)	2019A	2020A	2021E	2022E
Revenue	23,476	24,230	29,318	28,439
Cost of goods & services	(21,607)	(21,588)	(24,129)	(23,889)
<b>Gross profit</b>	<b>1,868</b>	<b>2,643</b>	<b>5,189</b>	<b>4,550</b>
SG&A	(3,229)	(2,672)	(2,990)	(2,986)
Other operating (exp)/inc	0	-	-	-
<b>EBIT</b>	<b>(1,361)</b>	<b>(29)</b>	<b>2,199</b>	<b>1,564</b>
Interest expense (net)	(119)	(301)	(178)	(183)
Other non-operating inc/(exp)	(1)	10	12	14
<b>Earnings before taxes (EBT)</b>	<b>(1,481)</b>	<b>(320)</b>	<b>2,033</b>	<b>1,395</b>
Income tax	472	524	(468)	(321)
<b>Earnings after taxes (EAT)</b>	<b>(1,009)</b>	<b>204</b>	<b>1,565</b>	<b>1,074</b>
Equity income/Minority interest	55	(6)	(145)	(101)
<b>Earnings from cont. operations</b>	<b>(955)</b>	<b>198</b>	<b>1,420</b>	<b>973</b>
Forex/Exceptionals before tax	(1,875)	(288)	-	-
<b>Net profit</b>	<b>(2,830)</b>	<b>(89)</b>	<b>1,420</b>	<b>973</b>

- ★ The company is likely to benefit from supply shortages and excessive demand in 21E
  - The average display selling price per sqm has reached its highest level ever
  - I consider this effect only temporary





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(YE Dec, Won bn)	2019A	2020A	2021E	2022E
Cash & short-term investments	3,338	4,220	3,518	3,413
Accounts receivable	3,628	3,662	4,398	4,266
Inventories	2,051	2,171	2,949	2,920
Other current assets	1,232	1,047	1,613	1,564
<b>Total current assets</b>	<b>10,248</b>	<b>11,099</b>	<b>12,478</b>	<b>12,162</b>
Long-term investments	110	115	127	135
<b>Net fixed assets</b>	<b>22,088</b>	<b>20,147</b>	<b>20,749</b>	<b>21,695</b>
Intangible assets	826	975	947	1,031
Goodwill	47	46	48	50
Other long-term assets	2,256	2,690	3,136	3,262
<b>Total assets</b>	<b>35,575</b>	<b>35,072</b>	<b>37,486</b>	<b>38,335</b>

- ★ Contrary to its Chinese competitors, I don't expect LG Display to pursue an aggressive expansion plan

# Balance sheet - liabilities



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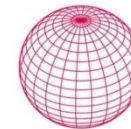
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(YE Dec, Won bn)	2019A	2020A	2021E	2022E
Overdrafts & short-term loans	1,977	3,136	4,958	4,874
Accounts payable	3,294	4,431	5,228	4,977
Other current liabilities	5,714	3,440	3,225	3,128
<b>Total current liabilities</b>	<b>10,985</b>	<b>11,007</b>	<b>13,411</b>	<b>12,979</b>
Long-term debt	11,592	11,016	9,355	9,542
Other long-term liabilities	509	312	405	417
<b>Total liabilities</b>	<b>23,086</b>	<b>22,335</b>	<b>23,171</b>	<b>22,938</b>
<b>Minority interest</b>	<b>1,148</b>	<b>1,336</b>	<b>1,494</b>	<b>1,602</b>
Paid-up capital - Common shares	4,040	4,040	4,040	4,040
Paid-up capital - Preferred shares	-	-	-	-
Retained earnings	7,503	7,524	8,944	9,918
Revaluation/Forex/Others	(203)	(163)	(163)	(163)
<b>Total equity</b>	<b>11,340</b>	<b>11,401</b>	<b>12,821</b>	<b>13,794</b>
<b>Total liab &amp; shareholders' equity</b>	<b>35,575</b>	<b>35,072</b>	<b>37,486</b>	<b>38,335</b>

- ★ The company started to reduce its long-term debt in 21E



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(YE Dec)	2019A	2020A	2021E	2022E
<b>General growth (YoY, %)</b>				
Revenue	(3.5)	3.2	21.0	(3.0)
Assets	7.2	(1.4)	6.9	2.3
Gross profit	(39.4)	41.4	96.4	(12.3)
Operating profit	nm	97.9	nm	(28.9)
Attributable profit	nm	96.8	nm	(31.4)
EPS	nm	96.8	nm	(31.4)
Recurring EPS	nm	120.8	616.1	(31.4)
<b>Du Pont analysis (%)</b>				
Net profit margin	(12.1)	(0.4)	4.8	3.4
Revenue per Won100 of assets	68.3	68.6	80.8	75.0
Assets/equity (x)	2.7	3.1	3.0	2.8
Return on equity	(22.4)	(0.8)	11.7	7.3

- ★ The company is characterized by rather weak efficiency
  - This means that the company needs to increase investments to drive revenue growth





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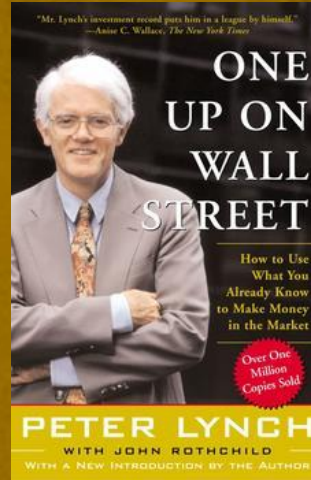
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(YE Dec)	2019A	2020A	2021E	2022E
<b>Internal liquidity (x)</b>				
Current ratio	0.9	1.0	0.9	0.9
Quick, or acid test ratio	0.7	0.8	0.7	0.7
<b>Working cap. mgmt (Days)</b>				
Inventory conversion period	40	35	38	44
Receivables collection period	51	54	49	55
Days from raw mat to coll	90	89	88	99
Payables deferral period	58	64	72	77
Cash conversion cycle	32	25	16	22
<b>Profitability ratios (%)</b>				
Gross profit margin	8.0	10.9	17.7	16.0
EBIT margin	(5.8)	(0.1)	7.5	5.5
EBIT return on avg assets	(4.0)	(0.1)	6.1	4.1
Return on average assets	(8.2)	(0.3)	3.9	2.6
<b>Financial risk (x)</b>				
Liabilities-to-assets (%)	64.9	63.7	61.8	59.8
Debt-to-equity	1.2	1.2	1.1	1.0
Net debt-to-equity	0.9	0.9	0.8	0.8
Times-interest-earned	13.5	11.1	26.4	23.2
Effective interest rate (%)	1.6	2.7	1.8	2.0

- ★ With the increased focus on producing higher-margin displays to escape the price competition on LCD TVs, I expect the company to maintain a higher margin over time
  - However, the competitive advantage is likely to diminish over time which is also incorporated in my forecast

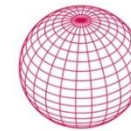
# A. Stotz Investment Research Stock Picking Checklist



- ★ Inspired by Peter Lynch's ten baggers (A stock that has gone up 10x)
- ★ Based on our extensive research
- ★ 9 factors that drive long-term share price performance



# Long-term share price performance potential



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Ratios

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## A. Stotz Investment Research Stock Picking Checklist

Potential

Comment

Good / Moderate / Weak

**1. Management** – Management has a proven commitment to growth

Weak

In the past, the management has reduced production capacity, leading to a declining revenue trend

**2. Growth** – Product and industry can support a decade of 10%+ annual growth

Weak

End markets for displays are mature (e.g. smartphones, TV)

**3. Sustainable** – Competitive strategy creates sustainably high gross margin

Weak

Competition in Asia is intense and Chinese gov't supports its domestic companies

**4. Quality** – Good earnings quality, non-core items are small or non-existent

Weak

High fluctuations; EBIT has been negative in the past 2 years

**5. Efficiency** – In the long run sales grow faster than assets

Weak

The company is characterized by a low efficiency; asset turnover is less than 100%

**6. Tight** – Relatively low cash conversion cycle, negative is best

Moderate

Cash conversion is moderately high and stood at 25 days in 2020

**7. Cash flow** – Operating cash flow is consistently positive

Moderate

Operating cash flows fluctuated a lot and were sometimes not enough to cover investing outflows

**8. Capacity** – Company has access to capital to fund growth

Moderate

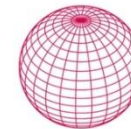
The company is relatively high levered (net debt-to-equity ratio stood at 0.9x in 2020)

**9. Inexpensive** – Valuation is reasonable, avoid very expensive stocks

Good

Massive discount on both 21E PE and PB compared to Korean Info Tech companies, but low on ROE





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(YE Dec, Won bn)	2019A	2020A	2021E	2022E
EBIT	(1,361)	(29)	2,199	1,564
Est tax rate (%)	-	-	23	23
<b>NOPAT</b>	<b>(1,361)</b>	<b>(29)</b>	<b>1,693</b>	<b>1,204</b>
Add: Depre & amort	3,695	4,135	4,728	5,135
Less: CAPEX	(6,510)	(2,157)	(4,761)	(5,447)
Chg in A/R	(630)	(34)	(736)	132
Chg in inventory	640	(120)	(778)	29
Chg in oth curr assets	(491)	185	(566)	48
Chg in A/P	(427)	1,138	797	(251)
Chg in oth curr liabs	1,035	(2,275)	(215)	(97)
<b>Less: Chg in working cap</b>	<b>127</b>	<b>(1,106)</b>	<b>(1,498)</b>	<b>(138)</b>
Less: Chg in invest cap				
<b>Free cash flow to firm</b>	<b>(4,049)</b>	<b>843</b>	<b>163</b>	<b>754</b>

- ★ FCFF in 21E was dragged down by massive changes in net working capital, but should stay positive



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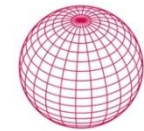
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Risks

Forecast assumptions			
	3-year average	Consensus	My assumptions
Revenue growth (CAGR)		6.5	5.1
Gross margin		17.2	16.7
EBIT margin		6.8	6.3
Net margin		4.1	4.0

My valuation method			
Market: Korea			
Market risk-free rate		2.6	Valuation Method: FCFF
Market equity risk premium		8.0	
Market return		10.6	
Company beta (x)		1.3	
COE		12.6	
WACC		6.5	
Terminal growth rate		2.0	

- ★ I expect a lower revenue growth than consensus as I assume the temporary price-driven revenue boost to not last much longer
  - Quantity sold has been on a declining trend before the pandemic and might continue going forward
- ★ A reasonable terminal growth rate of 2%



Sales

Story

FVMR

WCB

Ratios

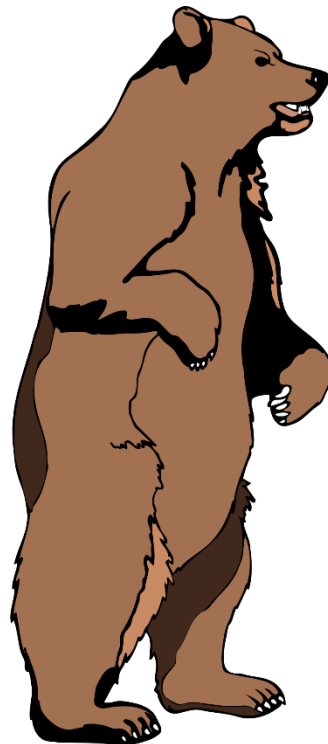
Value

Risks

**Bear**

**KRW18,853**

(Downside 4%)



**Base**

**KRW21,067**

(Upside 7%)



**Bull**

**KRW23,274**

(Upside 18%)





# World Class Benchmarking Scorecard

- ★ We identify a company's competitive position relative to global peers
- ★ We use a composite rank of profitability and growth, called "Profitable Growth"
- ★ Scale from 1 (Best) to 10 (Worst)



# Poor profitability partly offset by strong growth rebound



Sales

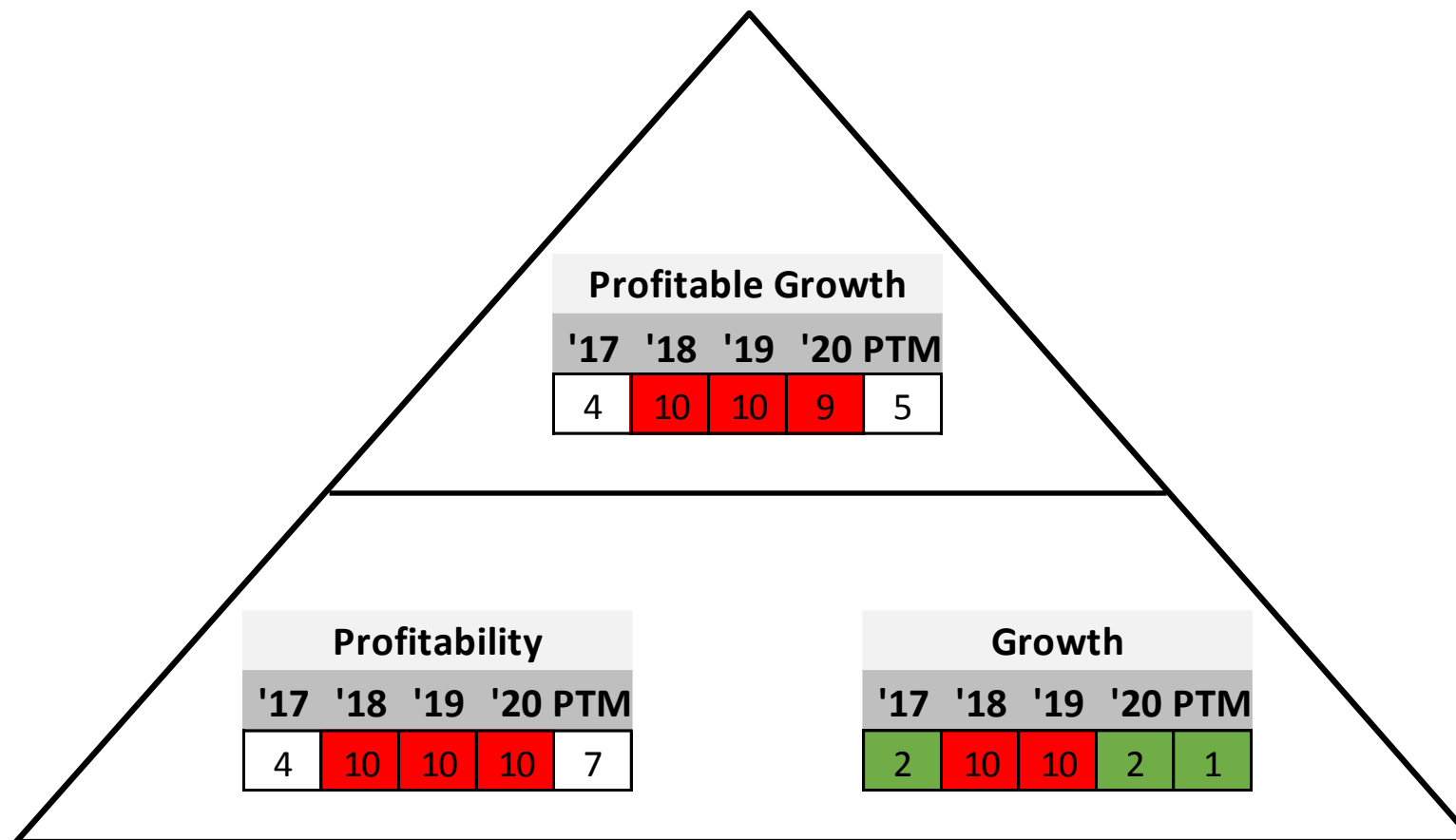
Story

FVMR

Value

WCB

Risks



Benchmarked against 700 large Info Tech companies worldwide.

# Key risk is intensified price competition



VALUATION MASTER CLASS

Sales

Story

FVMR

Value

WCB

Risks

- ★ Failure to keep up with latest technology to maintain competitive advantage
- ★ High concentration of key customers
- ★ Fluctuations in demand as end markets are sensitive to market conditions



# CONCLUSION

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- Markets for displays is mature; expect flat or declining revenue
- Focus on OLED technology could bring sustainable higher margin
- Valuation is cheap; but probably for good reasons



Is LG Display a **deep  
value play** or cheap  
for a **reason?**

